PART B

The role of investment in place in leading renewal

The second part of this collection of essays is from:

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These essays explore how sound investment can help unlock latent place potential and lead the way to renewal in our localities.

Themes include:

- Protecting social investment and new partnership models for investment.
- Extending the role of Homes England as housing accelerator with new powers over surplus public sector land and support of spatial plan delivery.
- Why supporting SMEs can accelerate growth and the role of garden settlements.
- Finding new forms of funding to inject new liquidity into the housing market – including the use of SIPPs for residential property investment, greater deployment of patient capital for social investment and pension fund investment.

Protecting social investment

Darren Carter
Investment Director, Social Property, Cheyne Capital

To set the scene, the Cheyne Impact Real Estate Trust is the second social impact investment fund, newly launched in 2020 by Cheyne Capital, a leading European Asset Manager. The Trust aims to work with councils, housing associations and charities from across the UK to provide affordable and keyworker housing as well as supported living facilities, care provision and mixed tenure developments. The objective of the Trust is to balance a positive social outcome, with a sustainable financial return for its socially motivated investors.

The scale of the business interruption during the COVID-19 pandemic and its consequential restrictions on the free movement of people, and the ensuing recession, will be determined by the effectiveness of the measures the Government put in place during the pandemic and how it acts when lockdown restrictions are eased.

Substantial fiscal response is required from the Government to stem rampant unemployment and promote a faster recovery. The fiscal response needs to be coupled with monetary injections from central banks to ensure an orderly functioning of the financial markets to avoid a severe liquidity crunch. The effectiveness of this response will determine the impact of the operating fundamentals on the housing market and investment values.

As an acquirer and developer of property to rent for social purposes, the Trust is less impacted by the general housing market given that it focuses predominantly on a rental model reliant on LHA, affordable and key worker rental demand. Given that there was already a high demand for rented accommodation pre COVID-19 and in particular accommodation for social uses, the Trust doesn't foresee any drop in demand for these types of uses and actually expects the opposite. We have unfortunately already seen a large number of businesses cease trading during the lockdown resulting in thousands of job loses which will only add to the local authority pressures to find quality, suitable accommodation for those families that now find themselves in need.

The Trust acquires restricted and unrestricted property from developers and therefore the developers need to be well capitalised or have access to funding to enable new schemes to be built out. Banks are already showing they are reducing their appetite to lend, not only by reducing valuations but also removing some mortgage types which will impact on the ability for residential buyers to acquire property.

The Trust is therefore particularly emotive against this backdrop; only a small percentage of the properties the Trust develops will be sold in the open market so the Trust is less reliant on a buyer confidence, a buoyant housing market and availability of mortgage providers. Virtually all of the units the Trust will develop or acquire will be rented, on an affordable basis, to individuals in need of good quality housing.

As well as banks reducing their appetite for residential mortgages, they are more likely to be wary of their commercial lending to developers. This is an area into which Homes England or the local authority could step in and provide loans to developers, at normal commercial lending rates, thus providing these organisations with an additional income stream and enabling the developers to build out their sites.

Contractors historically work on tight margins but are a necessity to build out schemes. There could be opportunities for recapitalisation finance to be provided by Homes England to ensure contractors have the liquidity to stay trading and enable schemes to be completed.

The planning process has been widely criticised over the years as being too slow and with too much red tape, which has greatly slowed down the time large housing schemes take to receive planning permission. Local authorities should review their planning processes to find efficiencies that allow developers and contractors to deliver development projects quicker, thus benefiting the whole economy. The Government has recently increased Local Housing Allowance Rates which increases the viability of affordable housing allowing more units to be acquired or developed for affordable rents.

Taking all the above into account, we believe the Trust is well positioned to continue to assist social organisations in a post-COVID-19 environment. Nevertheless, there are some recommendations we would like to see implemented to ensure availability of stock to provide to social organisations. These recommendations include:

- Homes England / local government to provide commercial loans to developers and contractors to fill the lending gap where banks have pared back.
- Reduce red tape in the planning process to speed up the delivery of new sites.

Darren Carter is Investment Director, Social Property, at Cheyne Capital

Brave new partnerships

Jackie Sadek
COO, UK Regeneration

Just a few weeks into the lockdown the Government held urgent talks with housebuilders about extending the Help to Buy scheme. Part of the effort to get the industry building again, just as soon as is practicable. No surprises there. If the economy is indeed to shrink by more than a third, then it is wholly right and proper that the powers-that-be are rebooting their most popular housing policy of recent times - even if that policy is "economically illiterate", as was claimed in open session at last year's Conservative Party Conference. Everyone must do all they can.

However, the hard fact remains that Help to Buy is still a demand side measure. And we are in desperate need of things to stimulate the supply side. It is a harsh fact that, once the COVID-19 crisis subsides, the housing crisis will still be with us. It's been several decades in the making.

One thing we can predict with confidence is that there will be massive Government intervention into stimulating the economy as we come out of this. The big question of the last decade has been: just *how* do you stimulate housing supply? After all, if there had been any silver bullets, wouldn't they have been fired before?

One hint can be found in the words of the indefatigable Nick Walkley, Chief Executive of Homes England, in their end of year statement (issued in early April, a few weeks into lockdown) saying "Our ability to overcome difficulties as a sector has been hugely evident in the last few weeks. Thanks to the hard work, creativity and determination of our partners right across the industry, we have managed to do some significant business. Continuing to build a development pipeline becomes even more important at a time like this."

This was followed in short order by a statement from Homes England, straight after the early May bank holiday, declaring that it is to step up as "master developer" to create development opportunities and provide a pipeline of sites for housebuilders of all sizes. They'd acquired 19 sites in the last financial year worth £180m, with the land having the capacity for 5,000 new homes across the country. It sends a clear signal of how the Government intend its housing agency to take a long-term view of housing demand in the context of the COVID-19 pandemic.

So, going forward, Homes England is looking to acquire challenging or stalled sites, unable to progress without public sector intervention, and use its resources and expertise to unlock them for development and bring them back to the market, ultimately resulting in much-needed new homes. Presumably there will be a steady supply of such sites, post-pandemic. On all the sites, Homes England will deliver the infrastructure before marketing the site to developers in parcels, accelerating the delivery of new homes. Simon Dudley, interim Homes England Chair, said: "I want to reassure the sector that Homes England is... investing in a long-term pipeline of development opportunities to support market recovery. The need for new housing will remain a priority." By acquiring difficult sites and addressing the barriers which have previously stopped them moving into production, Homes England is making sure they can deliver their mission to accelerate the construction of new homes while addressing the short-term disruption caused by the impact of coronavirus.

Therefore, Homes England are leading the charge back on the re-emergence of a "master developer" or even a "benevolent stewardship" type model. It is no accident that they are custodians of the new Garden Communities programme, the ethos of which only serves to build this narrative. But who will join in from the private sector? Let's not look to the volume of house builders. Not because they are the villains of the piece, but because they are further down the supply chain, with formulaic business models, which only really work for serviced plots for 200 homes at a time (and a maintenance of Help to Buy of course). Instead we need to look to the models pursued by the likes of Urban & Civic, Harworth Estates and Grosvenor, and now unashamedly being emulated by my own company, UK Regeneration. We take our inspiration from way before we had council housing; going back in history to seek for good models of high quality, popular and locally affordable homes, many of which were provided by the private sector; "model villages" built to house workers in places like Port Sunlight, Bourneville, New Lanark and Saltaire. Another touchstone was the old estates built by the likes of Guinness and Peabody. There is nothing new under the sun. It has been done before.

There is a band of newish, far less cynical, "strat-land" operators in the housing market springing up. And there are signs that this market is expanding, with firms like Cloud Wing in Bedford, who want to buy land outright, keep it for the long term, put out serviced plots to the market, whilst retaining overall control of the estate - a million miles away from the old "flipping land" brigade. And - for those, like the inestimable George Clarke, who are calling for a return to council housing - it can be tended by either the public or the private sector.

So there is a new band of partnerships emerging, whether it is Homes England directly with housebuilders, or private sector master developers, or old land-owing families, or local authority land owners supported by Homes England - or any permutation or combination therein. But at every one of these strategic sites there will be a powerful boost provided to the local economy by people working together in partnership to rebuild. It will be Brave New World stuff. It will be a series of very local place-based Marshall Plans. All indications are that the Government will be more and more transactional, coming out of the crisis, supporting those places that have stopped fighting among themselves, and have moved decisively to steer their own economic development and community regeneration.

Long termism and resilience will be the order of the day. The message is clear: Homes England is stewarding the national movement. And there is plenty of room in this market for people who wish to step up and play fair. It is a moment of reset.

Jackie Sadek is Chief Operating Officer of UK Regeneration, which is bringing forward a Garden Community in Bedfordshire, with consent for 1500 homes in the first instance. She is co-author, with Peter Bill, of "Broken Homes" an analysis of the housing crisis, to be published in September.

SMEs hold solution to national challenge

Nick Fenton, Kent Developers Group (KDG); **Jonathan Buckwell,** Developers East Sussex (DES) and **Mark Curle**, Essex Developers Group (EDG) are all members of the South East Local Enterprise Partnership's (SELEP) Housing and Development Group.

With one third of all Garden Settlements planned to be in the SELEP area, the national challenge to get Britain back building is also acutely local.

Chairing the local groups representing developers of residential, commercial and mixed-use schemes (together with landowners, property owners and planning professions), we are seeing at first hand the devastating impact that the COVID-19 emergency has had on the industry. Initially with no new starts, builders furloughed and supply chain difficulties, development was simply grinding to a halt.

As we begin to emerge from the crisis, central and local government interventions have been timely and helpful. Building has begun again. But to get to the housebuilding levels previously – and the levels the country still needs – further action is required. Major developers will play a huge role in delivering these numbers over time, but for an immediate acceleration it is to the SME sector that we must look.

Fiscal measures focussing primarily on SMEs could help to drive the recovery. This is because the SME business model requires a faster pace of activity to meet their specific requirements and a wider range of housebuilders will inevitably accelerate the rate of delivery through a greater number of outlets.

However, a first and immediate priority is an extension to the Planning Consent period for all outline and full planning permissions for residential and commercial development by 12 months. This recognises the growing anxiety and frustration within the industry that existing consents may otherwise simply slip away, with homes and jobs being lost. As in the last recession, temporary legislation is needed by way of automatic re-introduction or preferably an automatic extension (at any time over a 12 month period without having to return to planning) as has been achieved in Scotland. Flexibility is also required for Environmental Impact Assessments and other documentation that requires physical access to complete.

In addition, measures will be needed to boost confidence, defer immediate costs and stimulate demand.

Clarity, confidence and communication

Clarity, confidence and communication from the Government remains essential to emphasise the importance of the sector in building the economic recovery with guidance and clarity around current working arrangements.

We recognize the Herculean efforts already underway by local councils to ensure that planning processes continue: delays now will delay the recovery. Through delegated decision-making and prioritisation, continued government support for local councils is required to ensure that development is not stalled. Local planning authorities need clarity on site visits and on public consultation on planning applications and local plans, with councils concerned about going through the processes and then facing judicial review.

At the same time, all activity to support construction should be continued. Signals to the affordable housing sector that PWLB/HRA rates will remain low - and that now is the time to accelerate investment with debt caps removed - would all encourage planning for local growth.

Legislative/guidance changes to support the sector

As the Government's housing accelerator, the role of Homes England is going to be critical in driving positive change, recovery and building market confidence. Through targeted investment, the release of public sector land and as a guarantor - both as purchaser of last resort and within the materials supply chain - vital support could be provided to get Britain building again.

This includes clear guidance on the extension of time and costs and the legal status of undertakings (e.g. damage clauses, development finance) should they be in danger of default. With potential delays of six months plus in the completion of sites – and the potential of disputes or claims against operators - existing undertakings may make completion unviable and there is a real danger that developers may simply have to walk away. Where this is necessary, Homes England should be prepared to provide bridging finance.

There must also be an understanding that SMEs could bear the brunt of supply chain delays. There is recognition from SMEs that larger, Tier 1 housebuilders and commercial developers, will be treated as a priority when supplies return, with evidence that trade merchants are currently making their own decisions around prioritisation. While the situation is improving, we are being advised of a significant shortage on some items e.g. plasterboard, where production plants have been closed for several weeks with potential delays of up to 12 weeks before SMEs can be supplied and Tier 1 forward orders taking priority due to their existing trading agreements. This may further delay the commencement of SME works with associated default issues – a real concern that we continue to raise.

More broadly, starter homes could help stimulate the market, with purchasers able to move into new (or empty) properties. More expensive, larger homes may have chains with the danger to sales and housebuilders potentially stopping building until re-sold. At the same time, for designated Garden Settlements and brownland development, there should be proactive engagement on planning pre-conditions – some of which could potentially be waived - to accelerate delivery or surveys to enable development to begin (ie traffic, archaeology, etc).

Strategic planning for growth and infrastructure also remains critical – recognising new powers in Mayoral Combined Authorities, new local spatial planning powers should be reintroduced outside of cities to drive high quality development.

Fiscal/investment measures

Our respective Developer Group memberships includes businesses of all sizes. We support Tier 1 developers and housebuilders as much as SMEs and our recommendations reflect this. However, specific fiscal measures will be vital to accelerate development by SMEs.

In the short term, demand measures will be needed to support the market for sales. A clear decision to extend Help to Buy would be welcomed together with a Stamp Duty holiday to support first and vacant home purchases. Homes England should also support development finance extensions, recognising the risk exposure to SMEs and the need to stimulate the housing market.

At no risk to councils, - with interim relief funding provided from Homes England - s106 and CIL payments should be deferred where necessary to support SME cashflow through repayable bridging grants to ensure completion of critical community infrastructure (eg schools, NHS facilities). Dependent on this funding, local authorities should introduce a policy to delay s106 triggers, hence deferring and supporting s106 and CIL, rather than removing it. Planning approvals also need to be linked to events and housing numbers and not to dates.

Where government, Homes England and LEPs have financed residential and commercial schemes, these should be extended by 6 months automatically, potentially a year where circumstances require further flexibility (e.g. environmental survey windows missed, etc).

Critically, Homes England should act as guarantor on production of key construction materials to support supply chains, including brick production. Brick representative bodies have indicated specific concerns, with huge implications for partially-built homes and extensions where a lack of brick match could mean demolition. Similarly, import delays may cause further difficulties.

In the medium term, social housing should lead the way. Implementing findings from the Independent Review of Build Out around different markets for different tenures, social housing can provide a lead and give confidence to developers of immediate future occupation, thereby also supporting contractors and sub-contractors. Through investment in social housing, as a counter-cyclical measure to get housebuilding going, there are additional and immediate social and fiscal benefits, including cutting the ballooning housing benefit bill and Universal Credit in the longer term.

Good design and construction quality remains essential in all new buildings, residential or commercial. Registered providers have particular advantages in accessing capital at lower rates and recycled grant money for land purchases which private sector developers do not. Regardless of the status of developer, in applying the principles of "Living with Beauty", Government must encourage the very best design and quality to build new homes and places to leave a legacy for future generations.

The Homes England work programme should be prioritised explicitly to support SME businesses, recognising their dependency on time-limited development finance.

With a focus on brownland and garden settlements, the £10bn Single Housing Growth Fund should be earmarked for an immediate post-crisis stimulus for oven-ready, high employment, schemes. Joint public/private partnership working should be further explored to give confidence to the market, sharing the risk, on both housing and commercial development.

Government has already taken some bold steps to support recovery and local county and borough councils have shown themselves highly supportive and innovative.

We share an overriding commitment to create places where people want to live and work – homes, community infrastructure, businesses. We now need further policy action to accelerate economic recovery through support of construction and to deliver "good growth" in our counties and towns.

Nick Fenton, Kent Developers Group, Jonathan Buckwell, Developers East Sussex, Mark Curle, Essex Developers Group are all members of South East Local Enterprise Partnership's Housing and Development Group.

Supporting and supportive investment

Mark Quinn
CEO/Chairman, Quinn Estates

Post-COVID-19, the housing and construction markets need to provide a catalyst for the economy to regain momentum, with an estimated 373,000 sale agreements worth circa £82bn stalled during this period[1]. Unemployment and uncertainty will further reduce consumer confidence, which left unchecked, will lead to a significant drop in property values, potentially leading to many households experiencing negative equity further inhibiting construction activity with reduced sales values making building unsustainable.

Quinn Estates is actively involved in this market, employing circa 430 individuals/contractors and contributing in excess of £100m to the Kent economy. Below we outline opportunities to stimulate the property market and ensure maximum contribution to the wider economy of the construction industry by enhancing the demand for housing to support continued employment opportunities and bolster opportunities.

1. SDLT reduction on second-home ownership and foreign investment

Overseas buyers are subject to an additional 2% Stamp Duty from April-21, estimated to affect up to 70,000 transactions per year[2]. Additionally, since 2016 additional properties attract a further 3% to SDLT. Property wealth in Britain from second homes has risen more than 50% in the last two decades to nearly £1tn from around £610bn in 2001 to £941bn for UK residents (second homes, buy-to-let investments, overseas property), with 5.5 million British adults deriving wealth from second properties[3].

Representing a sizable proportion of the UK property market, stimulus to this area would have a significant positive impact. Deferring introduction of the additional 2% charge, whilst providing a two-year holiday from the 3% second-home charge would encourage and stimulate both responsible overseas and domestic investment growth, providing a much needed capital injection across the UK, directly focused on an area where there is clearly already significant demand to be unleashed, boosting employment, opportunities and the forward funding of future housing developments.

1 The Times 27th April 2020

2 Financial Times 22nd November 2019

3 The Guardian 14th June 2019

2. Residential property investment allowed within SIPPS for a period of time

For some time, commercial property has benefitted from the flexibility afforded by self-invested personal pensions ("SIPPS") allowing individuals to invest directly in commercial property within a pension wrapper.

These benefits are currently restricted to commercial property, however, relaxing the rules relating to these schemes, for example allowing a two-year period in which SIPPS can directly invest in residential property, would provide a further significant stimulus to the housing industry. Creating a significant residential market stimulus where very little may exist post-COVID-19 whilst costing central government virtually nothing, as all this would require would be a regulation change.

In 2019 it was estimated that savers owned circa two million such pension products containing approximately £180bn[4] with SIPPS expected to grow further by £1.9bn yearly to 2020[5]. Should just 10% of this capital be available to invest, this alone would represent an £18bn investment opportunity into the residential sector.

Furthermore, SIPPS can borrow up to 50% of their asset value, increasing the potential £18bn to £32bn, allowing investors to utilise borrowing to expand their portfolio rapidly, at a rate far in excess of that by which SIPPS are currently expected to grow. This will significantly boost demand for residential property, providing much needed liquidity to keep prices stable and investment levels strong.

This approach is supported by the trend investors have shown for purchasing alternative investment types within SIPPs over the last three years, a market of 800,000 investors which has been growing at a rate of 20-30% per year[6]. Recent stock market shocks will further drive investors to tangible asset classes, such as property. The transfer of more traditional pension products into SIPPs creates significant liquidity, underlining the ability of this approach to drive significant support for the housing and in turn construction industries when it is most needed.

3. More support for buy-to-let market

At its peak in 2007 the buy-to-let ("BTL") market saw circa 183,000 mortgages approved annually to landlords but by 2018 this had fallen to under 70,000[7] following a range of measures making the sector less attractive. This market creates significant investment and helps address the fundamental issue of lack of housing supply to meet the demand from an ever-increasing population.

Rental demand is increasing generally amid declining levels of home ownership. This arises not only as a result of a reduction in the availability of finance, but also from lifestyle changes and a desire to retain flexibility. In 1991, 67% of 25-34 year olds owned their own home; by 2014, this had reduced to just 36%. The future lack of consumer confidence and of job security is likely to reduce this further. The government's recent policies have been focused on supporting first time buyers, which remains key, but

4 Which? April 2020

5 This is Money 24th Jan 2019

6 Financial Times July 2018

7 Intelligent Partnership 27th Jan 2020

the industry now requires further support from investors at a time when recent policies have led to dwindling appetite to ensure rental demand is met.

As of April 2020, landlords who own property directly are unable to deduct any mortgage interest or expenses from rental income, thereby restricting tax relief for higher-rate taxpayers, a change phased in incrementally since April 2017. Providing mortgage interest relief would boost demand from small-scale private investors who require mortgage lending to raise the required levels of capital. Investors will then be able to exploit the current low-interest-rate environment. Small-scale individual landlords would be more likely to benefit rather than incorporated entities, which already benefit from mortgage interest relief.

Prior to the 2008 recession, BTL was rampant, but this was in an environment of ubiquitous bank lending. With recent increased solvency regulation of financial services, along with affordability hurdles that now have to be met, the industry is more tightly regulated, and the above taxation schemes to disincentivise widespread investment purchasing are no longer required to the current extent.

4. Private Investment into Public Infrastructure

A further demand and industry stimulus would be for central government to support significant strategic infrastructure development sites delivering wide-ranging public benefits whilst funded privately from land value capture. An example of such a project is such out below.

Highsted Park, Sittingbourne proposes the first privately funded motorway junction, Jct 5a, onto the Strategic Road Network (SRN) the M2, the long-anticipated Sittingbourne Southern Relief Road, and connection to partially-completed Sittingbourne Northern Relief Road. This strategic infrastructure relieves chronic congestion along the A2/A249 corridors along with pressure on Air Quality Management Areas along the A2, one of the worst roads for Air Quality in Kent. It creates a second junction for Sittingbourne and the Isle of Sheppy onto the SRN, the only large town with a single access point in Kent, facilitating a secondary route for traffic from Euro-Link, one of Kent's largest industrial estates and Kent Science Park, avoiding travel through Sittingbourne Town Centre and other AQMAs along the A2.

The proposal further delivers circa 9,250 new homes in an area with high demand for new homes, evidenced by rapid increases in house prices, coupled with persistent under delivery of housing numbers along with significant commercial space to enhance the existing Kent Science Park, already supporting in excess of 90 companies and 2,000 jobs. The project additionally creates in the order of 1,800 jobs during the construction phase at a critical time for the country and in the long term circa 7,000 direct and indirect jobs.

With Homes England support, a loan would be put in place post-planning and prior to implementation, providing the funding for the infrastructure works upfront, secured via a legal charge on land with outline consent for residential development. As land is disposed of, funding goes back to Homes England to pay-down this loan coupled with the release of the charge on the relevant land.

Legal contracts are already in place for the land required for the proposal which crucially, enshrines the land value capture principles required to facilitate the infrastructure delivery. In principle, board level approval has also been secured from five national housebuilders for circa 6,000 units and contracts would be put in place on a subject-to-planning basis providing certainty of payback to Homes England before the loan is released, and creating certainty of delivery. Furthermore, significant funds have been invested upfront at risk with infrastructure partner Volker FitzPatrick, creating further certainty of delivery of the key infrastructure.

The result is a major strategic infrastructure project delivered at no cost to the public purse, addressing air quality and congestion in an area of need, and accelerating housing delivery in an area historically saddled with under delivery and persistent house price inflation. Additionally, the private sector delivers a public infrastructure benefit with certainty of delivery whilst the public sector supports delivery via secure, low-cost funding for the project. Supporting this type of approach will facilitate massive job creation, much-needed housing and deliver a faster recovery of the economy through job creation, housing delivery and infrastructure provision.

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